

CHAPTER 6

Enacting the California State Budget for 2015-2016: The Governor Asks the Stockdale Question

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This article is based on information only through mid-August and
does not reflect subsequent developments

Admiral James Stockdale
Ross Perot's Third Party Vice Presidential Candidate
at a 1992 television debate¹

Jerry Brown is the only governor to be elected to four terms, albeit in two iterations.² Unless term limits are lifted, no subsequent governor will match his record. But even if he had a more conventional gubernatorial history, i.e., if he hadn't been governor in the mid-to-late 1970s and early 1980s, by 2015, he would have "owned" the condition of the state budget. After all, his second iteration began with his (re)election as governor in 2010. When he took office in January 2011, and for six months into that term, he was under the budget of his predecessor, Arnold Schwarzenegger. But by the time the 2015-16 state budget was being proposed and enacted, there had already been three purely Brown state budgets during his second iteration. The budget of 2015-16, whose enactment we review below, was Brown's fourth.

So in what condition do we now find state finance as of the fourth Brown budget of his second iteration? Clearly, the sense of ongoing crisis that characterized much of the earlier Schwarzenegger period is gone. The change in circumstance is partly due to the persuasive powers of Governor Brown who successfully urged voters in 2012 to enact temporary income and sales tax increases under Proposition 30. And it is partly due to the general U.S. economic recovery that has continued since the Great Recession bottomed out in 2009. But the state budget remains vulnerable to any future downturn in the U.S. and California economies.

Budget chapters in previous editions of *California Policy Options* have traced the history of the California state budget through the regimes of earlier governors. In this edition, however, we focus chiefly on the second iteration of Jerry Brown. In many respects, the state budget is the most important enactment of the legislature and governor since it reflects *de facto* public policy priorities in many areas. And in Brown's fourth term – his absolute last given the term limits now in effect – and given his age, Brown

¹<https://www.youtube.com/watch?v=uKpX-5jQjQ0>. Much of the source material in this chapter is derived from news sources such as the *Sacramento Bee* and *Los Angeles Times*. For space conservation, references in this chapter are generally confined to direct quotes and data sources. Dates on such references are from online versions and may not correspond to dates of appearance in print versions. This chapter takes the budget story only through the enactment of the 2015-16 budget and is based on information through August 2015. Later developments are not reflected.

²Earl Warren holds the record for *consecutive* terms. He was elected to three terms (1942, 1946, and 1950) although his third term was not completed due to Warren's appointment as Chief Justice of the U.S. Supreme Court in 1953.

seems to be thinking of legacy.³ He seems to be asking the Stockdale question but at an existential level: *Who am I and why am I here?* And what he wants to leave behind in California is heavily wrapped up in the state budget.

Wanted and Unwanted Legacies

The past is never dead. It's not even past.

Author William Faulkner⁴

Because of the long hiatus between his two iterations as governor, Brown has managed to be the one of the youngest and now the oldest governor.⁵ In his first iteration, Brown's priorities seemed to be framed by doing and being the opposite of his father and former governor, Pat Brown. Son Jerry saw his dad fail in an attempt to be re-elected to a third term in 1966, losing in that election to Ronald Reagan due to a combination of a state budget crisis and social unrest (the Watts Riot and student protests at UC-Berkeley). Jerry seemed to take that lesson to heart and developed his career as a fiscal conservative who was tough on social and campus disruption. Furthermore, where Dad was a familiar political type, Son was going to be unconventional.

Whatever his failings, Pat Brown *had* left behind three legacies: expansion of the freeway system, construction of a major state water project, and the Master Plan for Higher Education. The last entailed new campuses and distinct roles for the University of California (UC), what is now the California State University (CSU) system, and the community colleges. These accomplishments were all confined to California. If they affected other states, it was only because those states chose to imitate California. Son Jerry now wants to leave his mark on California like his dad, but also to touch the outside world.

During his first iteration as governor, perhaps in an effort not to repeat the electoral history of his father in 1966, Jerry Brown took on the persona of the anti-Pat (skepticism toward big capital infrastructure) and added fiscal conservatism and – as noted – opposition to student unrest. Brown attracted national attention with his combination of being a New Age Democrat, his fiscal conservatism, and seeming disenchantment with big (dad-type) public projects. The publicity he received nationally for his unusual persona even led to two campaigns for the presidency (1976, 1980). But things did not end well for Brown by the finish of the first iteration.

³Governor Brown's older sister died at age 81 in March 2015. The governor at this writing is 77.

⁴<http://memory.loc.gov/ammem/today/sep25.html>

⁵The only governors who began their terms at ages younger than Jerry Brown were figures of the mid-nineteenth century.

The New Age image led to the appellation, "Governor Moonbeam," which still rankles Jerry Brown today. Fiscal conservatism by 1978 led to the buildup of a huge reserve in the state's general fund at a time when local property taxes in California were shooting upwards due to a housing bubble. Homeowners asked why their local taxes were going up at a time when so much tax revenue was being collected – and not spent – by the state. Voters didn't make the state vs. local distinction when it came to taxation. The upshot was the property tax revolt in the form of Prop 13 of 1978. Proposition 13 drastically cut and capped local property taxes and required a state bailout of local governments, especially school districts.

The bailout drain plus two back-to-back national recessions led to a major state budget crisis as Brown's second term was ending. Fiscal conservatism didn't avert the crisis and certainly contributed to it via passage of Prop 13 and the resulting need for a state bailout of local authorities. Brown – in a seeming turnaround on big projects late in his first iteration – supported building a major water project, a "Peripheral Canal" in the Bay Area. But the Canal was rejected by voters. He ran for the U.S. Senate at the end of his second term and was defeated by Republican Pete Wilson, thereafter disappearing from state politics for several years. At the same time that Jerry was disappearing, Pat Brown's defeat in 1966 was increasingly being forgotten while his legacy in transportation, water, and higher education elevated his image as a Great Builder during a political and economic Golden Age. In contrast, absent a comeback, son Jerry's legacy was going to be Moonbeam and fiscal bust. But, of course, there was ultimately a comeback.

The Return from Obscurity

Fictional California Governor trying to fend off a scandal: *If you drag me into this business... you'll have as much of a future here as Jerry Brown.*

Fictional San Francisco Assistant District Attorney: *Who's Jerry Brown?*

From the 1995 film *Jade*

Brown's political comeback began with his election as chair of the California Democratic Party in 1988. But he resigned in 1991, after presiding over a disappointing year for state Democrats in which they lost the third gubernatorial election in a row.⁶ There was a third run for Brown for the presidency in 1992 on

⁶Republican George Deukmejian had twice defeated Democratic LA Mayor Tom Bradley for governor in 1982 and 1986. In the 1990 election, Deukmejian was succeeded as governor by Republican U.S. Senator Pete Wilson who defeated Diane Feinstein and who had defeated Jerry Brown in the 1982 senatorial race. Wilson, when he ran for re-election as governor in 1994, defeated Jerry Brown's sister, Kathleen Brown.

an odd mix of left/right political positions which made a splash. But no nomination ensued and once again Brown disappeared from the election scene.

Brown became a commentator on left-wing Pacifica Radio although at the time he seemed intrigued with right-wing guru Arthur Laffer and his tax proposals. Again Brown fell into relative obscurity. Eventually, however, Brown returned to public office in 1999 as mayor of Oakland – having run as an independent, not a Democrat. After achieving that office, he went on to become state attorney general (elected 2004), running as a Democrat. His period of return to electoral life encompassed the dot-com boom and then the bust. During that era, Brown saw his former gubernatorial chief of staff, Gray Davis, first elected as governor in 1998 and then recalled in 2003 during the bust-induced state budget crisis. Davis was replaced in the recall election by movie action hero Arnold Schwarzenegger who promised to fix the state's budget situation.

As governor, Schwarzenegger essentially borrowed his way out of the budget crisis left by Davis using an enlarged version of a borrowing plan Davis had hoped to follow.⁷ But the California economy tanked during Schwarzenegger's second term thanks to the Great Recession. Indeed, the recession was worse in California than in most of the rest of the U.S. because the housing boom/bust and flaky mortgage crisis – the root of the recession – was more concentrated in the state than elsewhere. The state's fiscal condition deteriorated to the point that in 2009, California could not pay all its bills and handed out IOUs instead. In the end, when Schwarzenegger left office – after the 2010 election that returned Brown to the governorship – his popularity ratings were as low as Davis' at the time of the 2003 recall.

By the time Brown ran for governor in 2010, a good portion of the electorate had no direct recollection of his first iteration as governor. The Moonbeam/fiscal bust legacy was resurrected by his opponent in that election, Republican Meg Whitman, the former CEO of eBay. But Brown succeeded in portraying himself as someone with much experience in state government who could solve the state's budget problems that outsider candidates – such as Whitman and Schwarzenegger – could not. He promised that there would be no new taxes *without a vote of the people*. The qualification – *without a vote of the people* – was important. It was not a promise of no new taxes. It was only a promise that the people would vote yes or no on any new taxes that might be proposed.

⁷The state constitution bars borrowing for general expenditures and Davis had concocted a complicated and legally-dubious scheme to get around the constitutional restriction. Schwarzenegger, in contrast, got voters to approve an amendment to the constitution that permitted the borrowing on a one-time basis. The last of the Schwarzenegger Economic Recovery Bonds was paid off in August 2015.

In fact, the only way state taxes could be raised as a practical matter was through a vote of the people. Thanks to Prop 13, the legislature couldn't enact tax increases without a two thirds vote. But legislative Democrats did not have a two thirds majority in either house. And minority Republicans would not vote for any tax increases.⁸ So any tax increase would, by default, require a ballot proposition.

Budget Background

It's a pretzel palace of incredible complexity.

Governor Jerry Brown referring to the state budget⁹

Before we trace the construction of the 2015-16 budget, we need to present some fiscal basics. When people talk about the state budget, they usually are referring to the general fund. State and local governments typically have a general fund that deals with ongoing operating expenses. For the State of California, such expenses include education, various social welfare programs, the prison system, and a variety of other functions. Apart from the general fund, there are other funds that are dedicated to specialized purposes. Transportation is the most prominent example. But there are many other funds. In some cases, they have earmarked revenue sources; for example, the state gasoline tax goes to transportation. Funds raised through bond flotations may also support special funds. Apart from the general fund and the special funds, there are also large state-run pension funds covering state employees and many local employees.

The major source of revenue for the general fund comes from taxes. There is also miscellaneous fee income, interest on monies held by the state, and receipts from other sources. However, the bulk of general fund revenue comes from three sources: the state personal income tax, the sales tax, and the corporate tax. As Chart 1 shows, the tax that looms largest is the personal income tax, a highly volatile tax heavily dependent on high income tax payers whose incomes fluctuate with both the general economy and with financial markets.

The accounting methodology used to monitor and budget the various funds – including the general fund – is largely in the hands of the legislature. There is a national entity – the Governmental Accounting Standards Board or GASB (pronounced “gaz-bee”) – that has some say in the way states present their

⁸A few Republicans did support temporary taxes in 2009 and were essentially drummed out of office. So there would be no repeats of that experience by those GOP members who remained or were newly elected.

⁹Quoted in Ben Adler, “What went wrong with California’s budget,” *Marketplace*, June 11, 2012. Available at <http://www.marketplace.org/topics/economy/what-went-wrong-californias-budget>.

accounts, especially when they go to the financial marketplace to borrow. But ultimately, the legislature in enacting budgets can define terms and procedures as it likes.

As a result, budgetary terminology can be confusing and misleading. Because the general fund is the operating budget, the state tends to treat it as analogous to a checking account that a household might use for its day-to-day expenses. And that approach can lead to problems, particularly because federal terminology differs from state.

When you hear that the federal government is running a *deficit*, what is meant is a flow concept. The tax and other receipts flowing in are falling short of the expenditures flowing out of the Treasury in a given fiscal year. Although they have been rare, a federal *surplus* means the opposite: the revenue flowing in exceeds the expenditures flowing out over the course of a fiscal year. In contrast to the flow concept, when we talk about the federal *debt*, we mean what is owed to creditors *at a point in time* (a stock concept). It is important to maintain a distinction between stocks and flows and, when talking of flows, to use a fixed, standard time period.

Unfortunately, at the state level, stocks and flows are sometimes mixed together by politicians and officials. Time periods used sometimes combine fiscal years (or parts of years) and sometimes do not. The confusion results in part from the checking account analogy. If your checking account has any money in it at a point in time, a stock concept, you may feel that things are ok and that you can write more checks without becoming overdrawn.

So sometimes, state politicians and officials will say such a situation is a budget “surplus,” a use of that term that differs from the federal practice. It would be more appropriate to characterize that situation as having a positive reserve. When the account is overdrawn, they may call the situation a “deficit” rather than a negative reserve. State officials may also use the federal terminology at times. Or they may use vague terms not found in any accounting textbook, particularly during periods of budget distress.

You might hear the fiscal situation described as a budget “gap” or a “shortfall” or a “hole” that needs to be plugged. The gap, shortfall, or hole may be assigned a numerical value without any definition of whether stocks or flows are being considered or of what timeframe is involved. Without a definition, the speaker may use a large dollar amount to shock you or to impress you with how tough the job will be to fix the budget. Or the speaker may use a small amount to show that the problem would be easy to fix if only others would see the issues in his or her way.

We'll come back to accounting methodology below. But the problem of vague and shifting terminology is more than just a semantic issue. If you don't know where you are, it's hard to know where you have to go. You may not even know you are in trouble when you are. For example, suppose period after period, the balance in your checking account declined because you were putting less money into the account than you were taking out. Using federal terminology, you would be running a deficit. And if you kept going, eventually you would run out of funds and your checks would bounce.

But if you were to say that as long as there was a positive balance, you had a "surplus," you might think your fiscal situation was ok until the last penny was gone. You could have avoided the problem by using surplus and deficit to refer to the flows into and out of your account. You could have used another word – typically in the checking account case people talk about the "balance" in the account – to refer to the stock. Using consistent and well-defined terminology, of course, doesn't guarantee that you will behave prudently. But it's hard to be prudent, even with good intentions, if you are confused about your financial condition.

To avoid confusion, and to provide a picture of the state budget's condition, in this chapter we will use "surplus" and "deficit" to refer to flows during a defined fiscal year. $\text{Inflows} > \text{outflows} = \text{surplus}$. $\text{Outflows} > \text{inflows} = \text{deficit}$. We will characterize stocks – the amount of money in the general account – as "reserves" (which could be positive or negative at any point in time). But even with those more precise terms, there remains fuzziness in state budgeting.

Accounting methodology goes beyond just terminology. The reason we keep accounts for anything – a business, a nonprofit organization, or a government – is to understand its underlying financial condition. One way to monitor that condition is to keep track of cash inflows, outflows, and reserves. And the State of California does keep cash accounts. But cash accounting can be deceiving when it comes to underlying conditions. For example, the state's fiscal year begins on July 1 and ends on the following June 30. Suppose the state is due to make a payment to a supplier towards the end of June and mails a check to the supplier at that time. Suppose, however, that the supplier doesn't get around to cashing the check until a day later on July 1.

The state will have more cash on hand at the end of the fiscal year, because of the delay, than it would have had if the check had been cashed a day earlier. But the timing of the cashing of the check really doesn't matter when it comes to the underlying condition of the state. Nonetheless, the delay makes it seem that there is more of a surplus (or less of a deficit) in the expiring fiscal year and less of a surplus

(or more of a deficit) in the next year. So cash accounting can be misleading because of the accidents of timing. Indeed the timing effect could be used for cosmetic purposes to disguise problems. For example, the state, to make the current year look better, might issue a check late in the fiscal year knowing that it was likely to be cashed in the next year. (Yes, you may be shocked, shocked to learn that such behavior by the State of California has actually occurred!)

To try to avoid the effects of accidental or cosmetic timing, professional accountants use "accrual" methodology which aligns outflows and inflows to the time period in which they actually are supposed to occur, rather than when they do occur. The state budget enacted by the California legislature in fact is an accrual budget. In theory, therefore, it should be more illuminating about the state's financial condition than the cash accounts. But that's only "in theory." Ultimately, the governor and the legislature define what is meant by accrual, so that the official budget data can be manipulated. Particularly during periods of budgetary distress, there is often pressure to make the budget situation look better than it is. But not always. Sometimes – if a governor wants to pressure the legislature to take corrective action – there can be pressure to make things look worse than it is.

Apart from manipulation, accrual methodology – because it involves assigning inflows and outflows to particular time periods to which they are linked – is also affected by formulas in the budget that are based on data estimates that change over time. Notable is Prop 98 – one of the most prominent examples of so-called "ballot box budgeting" in which initiatives set spending based on data-driven formulas. Prop 98 of 1988 and a related subsequent initiative created minimum state guaranteed spending on K-14 education based on three contingent formulas. The guaranteed funding comes from both general fund revenue and local property tax revenue. These revenues can be forecast but are not known for sure until after the fact. And they are assigned to the years in which the taxes were due, not when they were paid. Thus, what was supposed to be spent on K-14 in any given year may be determined retroactively.

It would be nice if there were some independent authority that would neutrally keep California's state accounts in a standardized format and unravel manipulations and misleading terminology. There is an entity known as the Legislative Analyst's Office (LAO) which has been around since the 1940s and which advises the legislature on budgets and other policy matters in a nonpartisan fashion. But in practice, LAO doesn't see itself as being charged with keeping a consistent set of books for the state budget. It tends to go along with whatever numbers are enacted by the legislature.

For purposes of this chapter, all we can do is alert the reader to these issues. For the most part, we will use the cash account to look at the past. But since accrual accounting is what the legislature enacts, we will use it to examine the steps leading up to the enactment of the 2015-16 state budget.

A Cash History of Brown's Budget Making in His Second Iteration

Anybody who thinks there is spare change around has not read the budget.

Gov. Jerry Brown in May 2013¹⁰

Table 1 presents the cash accounts covering the second iteration of the Brown governorship. As noted, Brown was elected in 2010, defeating Republican Meg Whitman and taking office in early January 2011. Since the fiscal year doesn't correspond to the calendar year or the electoral year, the first Brown budget would not take effect until July 2011. It is interesting to note that on a cash basis, the final Schwarzenegger-era budget (ending June 30, 2011) was actually in surplus. That is, inflows exceeded outflows in that budget year. A combination of general economic recovery and temporary taxes enacted in 2009 was fueling the surplus.

The budget issue at that point involved two issues. First, although the state was running a surplus, past deficits meant that there remained a negative reserve in the general fund. Essentially, to cover that debt, the general fund was borrowing from other state funds by putting IOUs in them in exchange for needed cash. When the general fund borrows in that way, the activities that are supposed to be financed by those other state funds can run short of cash, and carrying out those functions is hindered. Second, as noted, some of the revenue flowing into the general fund was the result of temporary taxes enacted in 2009 at the depth of the budget crisis. Voters, however, had refused to extend the lives of those temporary taxes, and so the revenues they were generating would disappear unless those sources were somehow replaced.

Brown's initial budget strategy when he took office was to ask voters (once again) if they would extend the expiring Schwarzenegger-era temporary taxes. In principle, the legislature could have extended their life via a two-thirds vote, but that approach would have required some Republicans to lend their support, an event that was not going to happen. So voters would have to do the extending, if it were to occur. Brown had a choice of two routes to put the issue before voters. He could have used the initiative process, a voter petition to place the issue on the state ballot. Or he could alternatively use the

¹⁰Quoted in Chris Megerian, "Gov. Jerry Brown unveils cautious budget for deficit-free state," *Los Angeles Times*, May 14, 2013. Available at <http://articles.latimes.com/2013/may/14/local/la-me-brown-budget-20130515>.

legislature to put an extension proposition on the ballot. But utilizing the legislative route would also require a two-thirds vote.

Perhaps because his first iteration as governor occurred in a period of more bipartisan cooperation than existed by 2011, Brown thought that he could cajole a few Republicans to support the legislative route to the ballot. After all, the Republicans would be asked only to put the matter before voters, not to support the tax extensions. They could support letting voters decide and then campaign against the proposed ballot measure. To provide an incentive for Republican support, Brown was willing to negotiate some concessions regarding environmental regulations and other matters. But five months of bargaining proved fruitless; no Republican support was obtained.

The state constitution requires the legislature to enact a budget by mid-June. But before 2011, there was no penalty if the legislature failed to meet the deadline, and it often did fail. However, voters had enacted a change in the constitutional budget process in 2010. They reduced the supermajority of two thirds required to pass a budget to a simple majority (which the Democrats had).¹¹ But the supermajority for tax increases – or extensions – was retained. In exchange for greater legislative authority, however, voters required that legislators would forfeit pay for every day beyond the deadline that there was no budget. As it became clear that Brown's negotiations with legislative Republicans were going nowhere, the legislature hastily passed a budget of its own to meet the June 15, 2011 deadline.

Brown quickly vetoed the legislature's budget and the state controller, John Chiang, ruled it wasn't a valid budget due to various technical deficiencies. Since the controller issues state paychecks, he refused to pay the legislature. News media then made heroes of Brown and Chiang on the misconception – certainly for the controller – that the veto and ruling was due to an unbalanced budget.¹² There was subsequent litigation on whether the controller had the authority to determine what was or wasn't a valid budget. The ultimate court decision, many months later, was that only the legislature could determine the legitimacy of its own enactment. Nonetheless, the lost pay was never returned. Neither the governor nor the state controller was anxious to correct the public impression that their actions were taken to ensure a "balanced" budget.

¹¹The supermajority requirement to enact a budget dated back to the Great Depression of the 1930s. The requirement of a two-thirds supermajority to enact tax increases was part of Proposition 13 of 1978.

¹²Chiang was termed out in 2014 as controller. He ran for state treasurer and was elected. He indicated in August 2015 that he was considering running for governor in 2018. Being a fiscal hero was clearly a political boost.

With it now obvious that no deal could be reached with the Republicans, the governor and legislature agreed on a budget that was “balanced” only on paper – not in reality – because of a phantom \$4 billion assumption of extra revenue. The budget did not specify which tax or taxes would bring in the phantom revenue, only that it would appear somewhere and somehow. At that point the controller accepted the new budget as valid and the governor signed it.

As Table 1 shows, on a cash basis the state ended the fiscal year 2011-12 with a deficit. Table 2 also shows that on a cash basis, receipts ended up over \$4 billion below forecast, not a surprising result given the phantom assumption. To Brown, the lesson for the next fiscal round was clear. Trying to obtain Republican legislative support for a tax proposition was not going to work. So the following year, he went the initiative (petition) route and put what became Proposition 30 to voters which provided temporary income and sales tax increases. Voters approved the proposition and, as Table 1 indicates, the state began running surpluses thereafter. Moreover, by the end of 2013-14, the negative reserve in the general fund had turned positive.

Budgets are inherently forecasts. Actual tax collections, as opposed to the estimates used in budget making, are determined by the tax structure as it is affected by, and reflects the pace of, the economy. Forecasts of the pace of economic growth (or decline) are inevitably uncertain. The actual after-the-fact outcome will likely differ from the forecast. And note that when governors make their initial budget proposals in early January, they are projecting how the economy will be almost six months in the future (the start of the fiscal year) and how it will be 18 months from the proposal’s date (when the fiscal year ends). Revenue flows are based on those uncertain forecasts.

After the 2011-12 fiscal year, with its phantom overestimate of revenues, Brown tended to put forward budgets with “conservative” estimates of forthcoming receipts. As Table 2 shows, thereafter actual receipts always exceeded the forecast estimates used in budgeting. In contrast, on the expenditure side, as depicted in Table 3, the forecast expenditures showed no consistent deviation from the actual results. Put another way, use of conservative receipt forecasts and reasonably accurate expenditure forecasts meant that there would be annual after-the-fact “surprises” in funds left over that could be added to reserves.

Political Backdrop

I can tell you in the last four years, we haven't solved all the problems, but boy, what momentum we have.

Calendar 2014 was also a gubernatorial election year. But there was not much doubt of the outcome. Brown had been elected in 2010 on a promise that he could fix the state budget based on his knowledge of the workings of California's governmental institutions. He argued that he could do so in a way that had escaped the termed-out political amateur Arnold Schwarzenegger or Brown's 2010 Republican opponent – and political amateur – Meg Whitman. With the fiscal crisis no longer an issue by 2014, Brown would certainly be re-elected. He was a Democrat in a state that has leaned Democratic since the early 1990s, albeit not always at the gubernatorial level. In Brown's case, he had arguably done what he promised voters in 2010 he would do, and voters are likely to reward delivered promises.

Really, the only issue was who Brown would beat in the election. In 2009, Governor Schwarzenegger – once he had agreed to temporary tax increases – needed a few Republican votes in the legislature to enact them. One of the Republicans who eventually agreed to go along was Assemblyman Abel Maldonado. But Maldonado – who was a “moderate” elected from a swing district – had a price to extract for his cooperation. The price was that legislature had to approve putting a constitutional amendment on the ballot (which voters subsequently passed) that created a “top-2” nonpartisan primary system for state elections.

Under top-2 rules, all candidates run in one unified primary, regardless of their party affiliation. In the general election, the top two candidates – regardless of party affiliation – run against each other. The system is thought by proponents to encourage moderate candidates such as Maldonado. Maldonado was also rewarded by being nominated for lieutenant governor by Schwarzenegger when a vacancy opened up for that office, and he was ultimately confirmed by the state senate after a protracted political battle.

The top-2 system, because it is nonpartisan, can result in two candidates of the same party running against each other. But in 2014, no major Democrat was going to oppose Brown, so Brown's rival would definitely be a Republican. But which one? Early on, Maldonado toyed with being a gubernatorial candidate, but he got no traction and dropped out. That left a “tea party” Republican, Assemblyman Tim Donnelly, and Neel Kashkari, an obscure Republican U.S. Treasury Department official, in the race to become the opponent to Brown (and who would surely lose to Brown).

¹³Quoted in Adam Nagourney, “In California, Jerry Brown's Opponent Makes Most of Lone Debate,” *New York Times*, September 5, 2014. Available at <http://www.nytimes.com/2014/09/06/us/politics/jerry-browns-opponent-attacks-waste-in-sacramento.html>.

Republican establishment figures definitely did not want Donnelly as the top-of-the-ticket Republican in the general election of November 2014 because he had a habit of doing and saying embarrassing things.¹⁴ They were fearful that the media attention Donnelly would generate as Brown's rival could adversely affect other Republicans on the ballot who had a chance of election for state and legislative offices. There was even concern that the electoral prospects of out-of-state Republicans could be upset by a Donnelly candidacy if he damaged the GOP brand.

So essentially, enough money was contributed to the Kashkari campaign to make him the number two vote-getter in the primary, albeit a distant second to Brown.¹⁵ Thereafter, however, funds for the campaign dried up since Kashkari had no chance of beating Brown. Kashkari had money, much of it personal, for only a couple of limited distribution TV ads, both education-themed. In one, he saved a drowning child and berated Brown's school policy. In the other, he spoke more conventionally in front of a school. For additional publicity, Kashkari had to rely on relatively costless YouTube videos and stunts such as posing as a homeless man in Fresno (inadvertently causing an affront to the Republican mayor of that city).¹⁶

Brown really had no need to campaign for himself. But he did want to promote two ballot propositions, a water bond (Prop 1) and a "rainy day" reserve in the general fund (Prop 2).¹⁷ So the only TV ads for Brown that appeared in the general election were the governor touting the two propositions and telling

¹⁴Donnelly replaced Assemblyman Anthony Adams in the 2010 election. Adams, one of the Republicans who supported the 2009 temporary taxes, was essentially drummed out of the Party and did not seek reelection. Donnelly was a prominent participant in the Minuteman movement that would patrol the border looking for illegal immigrants. At one point, he accused Kashkari of wanting to impose Sharia law, although Kashkari is a Hindu, not a Muslim.

¹⁵Brown actually got a majority of votes in the primary, 54% compared with 19% for Kashkari and 15% for Donnelly. In typical nonpartisan primary system – such as are found at the local level in California – a candidate who receives a majority – not just a plurality – would be automatically elected at that point and would not have to run in the general election. But under top-2, even if a candidate gets a majority, he/she must run against the number two candidate in the general election.

¹⁶Mayor Ashley Swearingin, who was running for state controller, refused to endorse Kashkari. Kashkari also made some loose remarks on a talk radio show about drug testing all legislators which he later explained as a joke. Meanwhile, even after losing the primary race for the second spot against Brown, Donnelly continued to make waves. He refused to attend a luncheon to which he was invited at which Brown hosted the president of Mexico. (He was upset because Mexico was holding a U.S. citizen who had crossed the border into Mexico with a forbidden firearm.) Later, Donnelly chose not to run for re-election to the state assembly. He became a radio talk show host and, at this writing, has filed a referendum intended to block mandatory vaccination for school children. Donnelly would not endorse Kashkari in the general election. He continued to complain, after the election, that the GOP establishment was turning against his supporters.

¹⁷Normally, the propositions would not have had 1 and 2 numbering and would have landed on the ballot with numbering indistinct from the other propositions on the November 2014 ballot. The legislature, however, required the easy-to-remember numbering to help ensure their passage.

voters to “save water; save money.” Kashkari, as noted, had only limited funds for advertising and a poll taken in September 2014 indicated that many prospective voters could not identify him as the Republican rival to Brown.¹⁸ A poll taken a week or so before Election Day produced a similar result. But it also indicated that a large minority of voters didn’t know that Brown was up for reelection, perhaps because all of his ads were for Props 1 and 2 and none explicitly referred to the gubernatorial race.¹⁹ Brown reluctantly agreed to a single TV/radio debate with Kashkari, but at a date and time that tended to minimize the likely audience.²⁰

In the end, Brown received 60% of the vote in the two-man race. It is worth noting, however, that an obscure Republican with few campaign resources nonetheless received 40% of the vote against a popular governor who in the popular mind had fixed the state budget problem. The 40% vote total Kashkari received suggests that Republicans – even in their diminished condition in California – still have a chance for statewide office *if* they can put up attractive candidates with resources and *if* they can change the image of the Party in the state. Of course, those qualifications are two big “ifs.”

Both Propositions 1 and 2 passed in November 2014; Prop 1 with a 67% vote in favor and Prop 2 with 69% in favor. The passage of Prop 2 had in fact been assumed in the budget enacted for 2014-15. Because reserves now accumulate in both the “regular” general fund reserve and in the rainy day fund (Budget Stabilization Account or BSA), Table 1 includes the rainy day fund in the calculation of the budget surplus for 2014-15.

There were two consequences of the 2014 general election for the future. Whatever the merits of having a separate rainy day fund, its presence adds to the opaqueness of the state budget process which has already been discussed. In addition, with there being essentially no contest for the top state office in 2014, voter turnout was very low. Low turnout meant that the number of votes cast for the governor (both candidates), was low. That figure, however, is used in a formula that sets the minimum number of signatures necessary to put propositions on the ballot. With a low threshold for signatures, the incentive

¹⁸Chris Megerian, “Only 1 in 4 likely voters can identify Gov. Jerry Brown’s opponent,” *Los Angeles Times*, September 12, 2014.

¹⁹Phillip Matier and Andrew Ross, “40% of voters unaware Jerry Brown is seeking another term,” *San Francisco Chronicle*, November 2, 2014.

²⁰Brown claimed he had time for only one debate and that no incumbent governor had ever agreed to more. In fact, Brown had agreed to four debates as the incumbent governor during his 1978 re-election campaign. The Brown-Kashkari debate took place the Thursday after Labor Day and two months before the general election. The debate can be seen at <https://www.youtube.com/watch?v=HKjuxVJPbMk>.

to put issues on the ballot for 2016 by initiative or referendum was increased since fewer signatures meant lower costs for obtaining successful petition outcomes.

A Numerical Look Ahead at the 2015-16 Budget

This is a sound, well thought-out budget. Yet, the work never ends and in the coming months we'll have to manage our resources with the utmost prudence...

Gov. Jerry Brown on reaching deal
with legislative leaders on 2015-16 budget²¹

There are various steps in the annual state budget process, some specified in the state constitution, and some determined by past practice. The constitution requires the governor to submit a budget proposal in early January before the start of the fiscal year the following July 1. Typically, however, the Legislative Analyst's Office will put together what is sometimes called a "workload budget" in the preceding November. A workload budget assumes the continuation of existing spending programs and tax law known at that time. Of course, in actual fact there could be changes in both programs and taxes. Thus, the LAO's budget is basically just a benchmark, not a true budget proposal. It tells the governor and legislature what will likely happen if they do nothing (and if the economy plays out as the LAO expects).

Essentially, in the usual budgetary sequence, the release of the LAO's workload budget is step 1 in the budget process. Step 2 is the governor's constitutionally mandated initial proposal. After step 2, the legislature will hold hearings and begin putting together its own budget ideas. As time passes, there will also be new incoming information on the state of the economy, on revenue collections relative to past forecasts, and on expenditures relative to forecast values. Note that the expenditure side of the budget, just as the revenue side, is a forecast. Many state programs depend on uncertainties such as the number of prisoners that will be held in state prisons or the number of persons that will be eligible for various social welfare programs.

By tradition, in May before the new fiscal year begins, the governor submits a "May Revise" budget as step 3 in the budget process. The May Revise represents both new economic information since January as well as political information as to legislative priorities. Finally, there is a constitutional requirement that the legislature enact a budget in mid-June. The governor can sign or veto the complete budget. But typically there has been some type of deal in advance between the legislative leaders and the governor. Still, the governor – even after a deal – can apply line-item vetoes to specific expenditures. At that point,

²¹Quote from governor's media release, June 16, 2015. Available at <http://gov.ca.gov/news.php?id=19005>.

step 4, there is a “final” budget (although there may still be changes through subsequent legislation during the fiscal year).

Table 4 shows the four stages of the 2015-16 budget starting with the November 2014 LAO budget estimate. Note that the numbers on Table 4 use the accrual methodology described earlier. It would be nice if some state agency were to provide a reconciliation between the cash numbers presented earlier and the accrual numbers. Sadly, as noted earlier, none do. But using the accrual numbers, there are two points worth highlighting.

First, note that as time progresses, the estimated revenue rises. Since, as pointed out earlier, the governor likes to use conservative revenue estimates, there is a tendency for actual revenues coming in for the ongoing fiscal year to exceed projections. So there is pressure to up the revenue forecast for the forthcoming year to be more realistic. However, the governor still pushed for conservative estimates, and his ultimate deal with legislative leaders included insistence that his May Revise revenue estimates be used in the final 2015-16 budget. As Table 4 shows, the May Revise estimates were indeed what was used.

Second, the combined reserve (regular plus rainy day) in the general fund projected for the end of the 2015-16 fiscal year is \$5.5 billion. Spending for the year is about \$115 billion. So the ratio of reserves to spending is projected to be under 5%. Even if we allow for the governor’s conservative revenue estimate, past history suggests that a reserve total in the 5% range would be quickly swallowed up by any negative shock to the state’s economy. So for now California remains in a precarious budgetary situation, even if there is no crisis at the moment.²² With that advance numerical view of the budgetary outcome for 2015-16, let’s look more closely at how the political process produced that outcome.

Summer 2014

I don’t have any comments here. Sitting among the beautiful trees at the waters of Lake Tahoe, my mind is drawn more to poetry than politics.

Governor Brown at an environmental meeting at Lake Tahoe²³

²²Under Prop 2 of 2014, the BSA alone could climb to about 10% of the budget eventually. (And there could also be “regular” reserves in the general fund in addition.) However, the path to such a BSA reserve would depend on the ups and downs of the state economy.

²³Quoted in David Siders, “Among the trees, Jerry Brown’s mind ‘drawn more to poetry than politics,’” Capitol Alert blog of *Sacramento Bee*, August 9, 2014. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article2607111.html>.

During the Schwarzenegger budget crisis era, when budget agreements were overdue and there was no deal until well into the fiscal year, the summer months featured headlines on the inevitable problems that arose as particular programs lacked funding. But once voters changed the rules so that a simple majority in the legislature was able to pass a budget, and with a combination of an improving economy and Prop 30 temporary taxes, summer 2014 was a quieter time. Indeed, in the summer of 2014, given the lack of realistic opposition to Governor Brown's re-election, headlines were hard to come by.

News reporters searching for material could write about such matters as a local billionaire's plan to divide California into six separate states, as if such a proposal had the remotest chance of coming to pass.²⁴ There was a flurry of excitement around a possible ballot proposition to ask voters their opinion on the U.S. Supreme Court's *Citizens United* campaign funding decision. But the California Supreme Court eventually took it off the ballot. At the time, the ongoing drought was just beginning to creep into public consciousness, although water-dependent farmers were already aware of it.

However, to the extent there was budget-related news, some of it indirectly involved the drought. The legislature had, years before, put an \$11.1 billion water project bond on the ballot, only to take it off when it appeared unlikely to pass. So Governor Brown negotiated with the legislature on pairing down the cost of the bond plan.

There were two sticking points. The governor's twin tunnel water project plan was controversial; some observers were even reminded of his failed 1982 Peripheral Canal proposal. And there was an ideological division in the legislature over dam construction. Republicans liked dams; Democrats opposed them. The idea of weighing the costs and benefits of particular projects seemed not to be a major element in legislative thinking. As a result, vague language referring to "water storage" facilities rather than dams has come into vogue among California politicians whenever water issues are debated.

Eventually, a water bond accord was reached that was "tunnel-neutral" (no funds specifically earmarked for Brown's tunnels) and that had some funds that could be used for water storage. The governor

²⁴The proponent put over \$5 million into a signature drive for an initiative to divvy up the state but nonetheless failed to obtain sufficient signatures to put it on the ballot. Josh Richman, "Six Californias' initiative fails to qualify for ballot," *San Jose Mercury-News*, September 12, 2014. Available at http://www.mercurynews.com/california/ci_26522852/six-californias-ballot-initiative-fails-qualify-2016-ballot.

pushed to cut the bond to \$6 billion but eventually he settled for \$7.5 billion. With that agreement, the bond plan became Prop 1 for the fall 2014 ballot.²⁵

Then there was the rainy day fund which became Prop 2. One component of the deal that put Prop 2 on the ballot was a proviso that since the state would be putting money aside for schools (as well as all other state expenditures), school districts would be restricted in putting their own money into local-level rainy day funds. School districts, however, were dubious about how much would be available for them in the event of fiscal “rain” at the state level and wanted to have their own reserves.²⁶ Legislative Republicans proposed relaxing the local limitation but they didn’t have the votes to implement a change.²⁷ (Arguments about possibly relaxing the local reserve limits were still going on a year later in the legislature.)

Legislative Republicans also expressed concern about the cap-and-trade program that acts as a *de facto* tax – but is not technically a tax – on greenhouse gas emissions and emitters. Some of their opposition was based on cap-and-trade’s quasi-tax characteristic. But some of it was based on opposition to the high-speed rail project supported by the governor, which is partly reliant on a portion of the cap-and-trade revenue collected by the state.

Republican gubernatorial candidate Neel Kashkari referred to the rail project as the “crazy train” during his campaign, but the issue never really caught on. During the summer, the Legislative Analyst’s Office (LAO) estimated that an eventual likely impact of the imposition of cap-and-trade would be to raise retail gasoline prices by 13-20 cents per gallon and possibly more. However, the impact would be a phased-in effect, reaching that level by 2020.

In the single TV/radio debate Brown had with Kashkari, Brown defended his rail plan. It’s worth noting that the train plan had actually begun under Governor Schwarzenegger. Brown was gradually also assuming ownership of the state’s environmental reputation – especially with regard to greenhouse gas emissions – that also developed under Schwarzenegger; high-speed rail, too, was something Brown inherited and then adopted – not something he conceived.²⁸ Just as Schwarzenegger at one point had

²⁵The legislative wrangling over the water bond lasted so long into the summer that Prop 1 did not appear in the overall ballot pamphlet sent to voters. A separate item on Prop 1 had to be mailed to them.

²⁶The reserve component for schools was dependent on capital gains receipts of the state which can be very volatile and reflect the ups and downs of the stock market and other financial markets.

²⁷Teachers’ unions favored the local limitation. They believed that otherwise school districts would tuck away funds that could otherwise go into pay and benefits.

²⁸Brown’s wife and chief advisor, Anne Gust Brown, was credited in one report with steering the governor’s interest in the rail proposal. See Vauhini Vara, “Anne Gust Brown is the most powerful first lady in the country

spoken to the United Nations about California's greenhouse gas program, so, too, did Governor Brown in late September 2014. Indeed, Brown went beyond Schwarzenegger; he demanded that Republican candidates for president should state what they would do about global warming, and he participated in a Vatican-sponsored environmental program on the topic. If there were a link between the rail project and Brown's growing climate change interests, it was via the cap-and-trade connection. Ironically, however, a papal document on global warming was critical of cap-and-trade as a solution.²⁹

There were two things that Brown *didn't* do as the summer came to an end and as the November 2014 general election approached. He tended to stay aloof from the campaigns of other Democrats and not actively campaign for them. In the legislature, Democrats, with some luck, might have reached the two-thirds majority level needed to pass tax increases and put propositions on the ballot without Republican support. But with two thirds, legislative Democrats could also override a gubernatorial veto and it was unclear that Brown was anxious for that much power to reside with them.

Brown also pointedly did not repeat his pledge of the 2010 election: the pledge of no new taxes without a vote of the people. Since there was no danger of his losing the 2014 election, there was also no point in tying his own hands with such a promise. When asked about whether he would renew the tax pledge, Brown said that this time around he would be "sticking to 1 and 2," referring to the water bond (Prop 1) and the rainy day fund (Prop 2).³⁰ Thus, the 2010 tax pledge was not renewed as part of Brown's 2014 campaign. (And a year later, the legislature was actively considering tax plans for road maintenance and other purposes.)

While there were issues related to the budget that might have been raised in a more competitive gubernatorial election, the absence of a viable opponent to Brown left such matters to policy wonks and to the few reporters who covered state policy. The legislature and governor, for example, have approved subsidies in one form or another to specific firms, ostensibly to create or retain jobs. High-profile firms, such as Tesla – a manufacturer of expensive electric cars – have been the targets of such awards, sometimes in bidding wars with other states. California has also responded to other states' programs to subsidize film and TV production within their borders by enhancing its own program of film

because she didn't want to be one," *California Sunday Magazine*, June 7, 2015. Available at <https://stories.californiasunday.com/2015-06-07/anne-gust-brown-the-most-powerful-first-lady-in-the-country/>.

²⁹George Skelton, "Pope Francis and Brown part ways on cap and trade," *Los Angeles Times*, July 19, 2015.

Available at <http://www.latimes.com/local/politics/la-me-cap-environment-20150720-column.html>.

³⁰Quoted in David Siders, "Jerry Brown mum on tax pledge," Capitol Alert blog of *Sacramento Bee*, September 26, 2014.

tax credits. There was essentially no discussion of the efficacy of such programs in the 2014 election season.

Similarly, during the earlier period of fiscal distress which Brown inherited when he returned to the governorship in 2011, a series of legislative actions and judicial decisions had led to the abolition of local redevelopment agencies. Such agencies were funded in part by property tax diversions that indirectly required the state to backfill the lost local revenue that would otherwise have gone to schools.³¹ The legislature enacted, and the governor signed in September 2014, a partial substitute for redevelopment agencies known as Enhanced Infrastructure Financing Districts (EIFDs). Again, there might have been some discussion of the utility of EIFDs in the campaign, but the topic didn't come up.

The legislature also enacted, and the governor signed, a bill allowing some community colleges to offer four-year degrees. Separation of the roles of the three "segments" of public higher education – community colleges, CSU, and UC – was an integral feature of the Master Plan that Jerry Brown's dad as governor brought to fruition. The old 1960 Master Plan might well have needed review after over half a century. But there was no review in 2014 of the type that led to the Master Plan; just an *ad hoc* legislative decision. And there was no debate over the erosion of the Master Plan as part of the 2014 election. Nor, as will be discussed below, was there any attempt by the governor to create a broad review committee to re-evaluate the Master Plan after the election when a budget dispute with UC erupted.

The Fall: Election and Aftermath

A fourth term will be very different than a first term or a second term, and it will be even different than a third term. Now what will all be, you just, you know, fasten your seat belt. It'll be a very exciting ride.

Governor Jerry Brown speaking to reporters at campaign stop³²

By the time of the fall 2014 election, revenues for the first quarter of the fiscal year were running about half a billion dollars ahead of the official budget forecast. So it would have been difficult to make an issue about the condition of the state budget, even if Kashkari had had the money to make an issue of it.

³¹The technical term is "tax increment financing." Basically, the rise in property tax revenue due to development fostered by the redevelopment agency goes back to that agency to finance borrowing for the project. Under Prop 98's formulas for required K-14 spending, local property taxes are included. So property tax revenue that doesn't go to school districts and community college districts has to be made up by the state. Abolishing redevelopment agencies increased local property tax revenue for K-14, thus saving money for the state.

³²Quoted in David Siders, "Jerry Brown, weary of agenda questions, dares reporter to 'print half of what I say,'" Capitol Alert blog of *Sacramento Bee*, October 29, 2014. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article3456324.html>.

Polls suggested that Democrats would carry all statewide offices. The main uncertainty was over the race for Superintendent of Public Instruction in which an incumbent Democrat was being challenged by another Democrat running on an education reform platform. In the end, that office went to the incumbent.³³ Kashkari wrote a long post-campaign report attributing his defeat to “fatigue” among Republican donors.³⁴ He ended up putting over \$3 million of his own money into his losing campaign.

Apart from Props 1 and 2, there was another proposition approved by voters with budgetary implications. California had been under court supervision due to state prison overcrowding and inadequate health care and under orders to reduce its prison population which it had been doing. Part of the remedy was early release of prisoners considered the least dangerous, a policy that some police agencies felt was causing an uptick in crime. Voters in the 2014 general election approved Prop 47 which reduced certain crimes to misdemeanors, again resulting in a prison population reduction. Housing prisoners is expensive and so indirectly Prop 47 reduced the long-term budgetary cost of corrections, at least at the state level.³⁵ On the other hand, there was a temporary added burden placed on the courts stemming from petitions by prisoners asking to be resentenced under the new rules. The governor’s budget included additional spending for that purpose.

To the extent there was any budgetary drama in the fall of 2014, it came from the University of California Regents almost immediately after Election Day. Up to that point, the regents had relied on the governor for the passage of Prop 30 and for improved state funding after the cuts of the Great Recession. They were disappointed with the added funding they received when the proposition passed and complained that while the state provided for CSU’s pension as part of CalPERS – the giant state pension plan – it eschewed responsibility for UC’s pension costs under the university’s separate plan. But generally, they went along with the governor’s requests for tuition freezes. The governor is an *ex officio* regent and, unlike his predecessor, Brown often attended regents meetings and philosophized about his views on educational matters.

Traditionally, the UC president has been an academic. The regents decided that what was needed in a president was political skill in dealing with Governor Brown and the legislature and so recruited Janet Napolitano, a former governor of Arizona. Before the November 2014 election, Napolitano – with the

³³Elections for the superintendent of public instruction are nonpartisan.

³⁴Neel Kashkari, “Lessons from the Trail” (November 5, 2014), p. 6. Available at <https://republicanmillennial.files.wordpress.com/2014/11/neel-kashkari-lessons-from-the-trail.pdf>

³⁵As with other ballot initiatives, once in place inadvertent consequences of Prop 47 become hard to fix. For example, it was noted that DNA collection from those arrested for felonies is collected, but not for misdemeanors. Did voters mean to exclude certain crimes from DNA collection as opposed to harsh punishment?

support of the regents – evidently came up with a plan to propose a multiyear sequence of annual tuition increases to be unveiled right after the election.³⁶ The state, however, could buy out the tuition increases if it so desired under the proposal. The UC proposal was a direct challenge to Brown; in effect it posed one (former non-California) governor against a current California governor.

Brown moved to fill vacant regent positions with allies but there were only a few vacancies, so there was no prospect of reversing the post-election regental decision. What eventually emerged was a confidential “Committee of Two” (Brown and, or versus, Napolitano) to negotiate a deal. That approach posed a political problem since budget appropriations for UC in the end are enacted by the legislature, not the governor and not the regents. Meanwhile, the trustees of CSU kept their heads down, perhaps because they already had the pension advantage and – more likely – because they saw no gain in confronting the governor when UC was doing it for them. If UC somehow obtained more money from its strategy, CSU might benefit from additional funding, too, without taking a political risk.

The UC budget dispute, which in the end involved only a very small part of the \$115 billion budget eventually adopted for 2015-16 – a small fraction of 1% no matter how you choose to account for it – seemed to provide the main fiscal drama for the state’s news media during the next six months. (Note that what was at stake was just an annual *increment* to the total ongoing UC budget; the total to which the increment would be added was only about 2.6% of the prior year’s budget.) Regents would meet every two months with the two governors present; students would demonstrate against the tuition hikes (which were in fact bargaining chips). The governor’s newly appointed regents and the political *ex officio* regents would be in conflict with most of the others.³⁷ The Committee of Two would negotiate behind closed doors – leading to uninformed speculation as to what was occurring. Legislative leaders felt cut out of the process and were not reticent about letting it be known that they wanted to be players and ultimately would have to be. Indeed, from the get-go, Assembly speaker Toni Atkins declared the UC tuition plan to be “unacceptable.”³⁸

³⁶The plan appeared as an op-ed by Napolitano and the chair of the Board of Regents, Bruce D. Varner, in the *Sacramento Bee* on November 5, 2014, the day after Election Day. See “A better plan to set tuition at UC” available at <http://www.sacbee.com/opinion/op-ed/soapbox/article3585204.html>.

³⁷Apart from the governor and his new appointees, there were negative votes from the student regent and the other *ex officio* regents. Lieutenant Governor Gavin Newsom, one of the *ex officio* regents, was soon to announce that he was running for governor in 2018. Other potential candidates at this writing are former state controller Steve Westly (who tried unsuccessfully for the Democratic nomination for governor in 2006), state treasurer John Chiang, and former Los Angeles mayor Antonio Villaraigosa.

³⁸Her rejection of the plan also appeared as a *Sacramento Bee* op-ed: “There’s a better way than tuition hikes to fund UC,” November 18, 2014. Available at <http://www.sacbee.com/opinion/op-ed/soapbox/article4001542.html>.

Winter: Budget Unveiling

With big and important new programs now launched and the budget carefully balanced, the challenge is to build for the future, not steal from it...

Governor Jerry Brown, 2015 Inaugural Address³⁹

While there is a tradition of leaking word of new proposals that will be contained in the budget as the budget release date approaches, there was little such leakage prior to the January 2015 budget announcement. Indeed, the main announcement from the state Department of Finance – not a leak – was that its latest estimate for California’s population growth was under one percent per annum.⁴⁰ California was no longer growing faster than the rest of the U.S. (and really hadn’t since the end of the Cold War). Its economy, in short, was not pulling in folks from elsewhere as had been the case for much of the state’s history.

There was a reason for the absence of leaks about new programs. What the new budget mainly contained were increments to existing programs, albeit some larger than others. And, as noted above, the drama of UC’s budget tended to pull attention away from other matters. There were continuing issues with defective construction of the Bay Bridge that might have been discussed more fully. There was a (largely ceremonial) “groundbreaking” for the high-speed rail project.⁴¹ The new elements in the budget were dollar totals for various existing programs. Only the UC budget issue had both dollars *and* conflict. And in the UC case, the governor simply wrote the budget on the assumption and contingency of a continued tuition freeze.

Prior to the January budget proposal release, the Legislative Analyst’s Office (LAO) put out reports on technical issues such as the limitation on school district reserves and implementation of the Local Control Funding Formula which is intended to channel school resources to especially needy students. The Bay Delta water supply and the governor’s tunnel plan were also discussed. But these were technical issues and not new ones. The one potential new area discussed by LAO was the possibility of implementing a state-level Earned Income Tax Credit (EITC) that would piggy back on the federal EITC.

³⁹Media release of January 5, 2015 available at <http://www.gov.ca.gov/news.php?id=18828>.

⁴⁰California Department of Finance news release dated December 11, 2014. Available at http://www.dof.ca.gov/research/demographic/reports/estimates/e-2/documents/July2014_package.pdf.

⁴¹A fictional scandal based on the high speed rail was a centerpiece of the 2015 plot of the TV series “True Detective.” And one of the final scenes in the series took place in a transit hub built in Orange County which would become the station for the high speed rail assuming it eventually reaches Orange County. But the series aired during the summer of 2015, well after the state budget was enacted. If there was any confusion between reality and fiction as a result of the series, it came too late to influence the budget.

Under such an EITC, the working poor would receive a tax refund larger than what they paid in state income taxes, a net income subsidy. The EITC idea, however, was not raised in the governor's January proposal although it made a later appearance as part of the May Revise budget.

Generally, however, public concerns about the budget were receding as memories of late budgets and clashes between the governor and legislature faded. A Public Policy Institute of California (PPIC) poll found that 46% of adults thought the budget was a "big problem," down from about seven out of ten adults when Governor Brown started his second iteration back in early 2011.⁴² What exactly the "problem" was for the 46% was unclear. Seventy percent of Republicans thought the budget was still a big problem. But did they think so because they felt taxes were too high or that there was too much spending even though there wasn't an immediate crisis? What we do know is that public perceptions of the budget are highly inaccurate. In the same poll, 42% of adults thought that the biggest state expenditure was on prisons, when only 9% of the budget at that time went to that category. Only 15% thought that K-12 was the biggest category even though K-12 was by far the largest category absorbing 43% of the budget.

Although Governor Brown had explicitly not pledged in 2014 that there would be no new taxes without a vote of the people, proposals for new taxes – although discussed in the legislature – went nowhere during the period of enactment of the 2015-16 budget. Brown had talked about the need for addressing the funding for a backlog of needed road maintenance. But he ultimately deferred any discussion of tax increases to fund such an effort until a special session during summer 2015, *after* the overall 2015-16 budget was enacted.⁴³

There was also talk of extending the Prop 30 temporary income and sales tax increases although the governor seemed reluctant to permit what he originally promoted as temporary to voters to become quasi-permanent. In fact, the 2015-16 year is projected to be the peak of Prop 30 revenue collection if there are no extensions, roughly \$8 billion.⁴⁴ The following fiscal year, the sales tax component will

⁴²Californians and their government, January 2015. Available at http://ppic.org/content/pubs/survey/S_115MBS.pdf.

⁴³The traditional funding mechanism had been the gasoline tax. However, with more fuel-efficient cars – including electric vehicles – the gasoline tax was becoming a less effective user tax. It also was calculated in a cents-per-gallon format so that there was no adjustment for inflation. There was discussion during the summer of other taxes such as a mileage charge. However, a mileage charge would require access to odometers and raised privacy issues as well as administrative concerns and essentially dropped off the agenda.

⁴⁴California Forward, "Financing the Future: How Will California Pay for Tomorrow?" Available at <https://cafwd.app.box.com/s/izluytl2guouf50fbvd57pwet7v98pl>.

expire in midyear. And in 2018-19, the same happens with the larger income tax component (coinciding with the end of Governor Brown's second iteration).

Apart from Prop 30 extensions, there were other ideas floating about such as a "split roll" for local property taxes under which commercial property would be taxed at higher rates than residential. Under state fiscal arrangements, more local property taxes – which in part go to K-14 – tend to reduce the state contribution to K-14 under the formulas of Proposition 98 of 1988. However, Governor Brown has been reluctant to touch Prop 13 of 1978, which determines local property taxes – residential and commercial – and which was enacted by voters overwhelmingly during his first iteration as governor. Although much of the business community opposed Prop 13 in 1978, the tax advantage that has since accrued to business would guarantee a heavily funded campaign against the split roll concept.

With the governor vs. the Regents conflict fully underway, and the Committee of Two (referenced earlier) now formed, UC president Napolitano announced that out-of-state enrollment at the Berkeley and UCLA campuses would be capped. In part this step was aimed at defusing gubernatorial and legislative concerns about access for state residents, and thus an effort to engage public support (or at least less opposition). Oddly, at least one poll suggested the public preferred to have more out-of-state students *if* the full tuition those students paid would prevent in-state tuition from rising.⁴⁵

Meanwhile, the Legislative Analyst's Office – which is neutral/bipartisan when it comes to legislative matters – grumbled about the governor setting priorities for UC via the budget. The LAO is *not* neutral when it comes to whether the governor or the legislature – of which LAO is a part – should set priorities for state programs. However, both the governor and UC president Napolitano gave vague assurances to the regents in March 2015 that their Committee of Two discussions were moving in what the governor termed the "right direction" – without specifying what direction that was.⁴⁶

Beyond the UC tuition controversy, other levels of education were also debated – albeit with less news media attention – once the January budget proposal was presented by the governor. For example, Brown, while substantially increasing the allocation for schools, wanted to end state bond funding of school construction and leave such matters to local districts. But the districts and the legislature weren't

⁴⁵The result was found in the USC/Dornsife/Los Angeles Times poll. See Phil Wilson, "Voters strongly oppose UC tuition hike, poll finds," *Los Angeles Times*, February 28, 2015. Available at <http://www.latimes.com/local/politics/la-me-pol-poll-tuition-20150228-story.html>.

⁴⁶David Siders, "UC budget talks with Janet Napolitano headed in 'right direction,' Jerry Brown says," Capitol Alert blog of *Sacramento Bee*, March 18, 2015. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article15286988.html>.

happy with that idea. And, given California's direct democracy, it's hard to see how petitions for ballot initiatives authorizing and requiring state bond funding of school construction could be prevented.

Meanwhile, there were monthly reports from the state controller indicating that more tax revenue was being collected by the state than had been estimated as part of the 2014-15 budget. Through January, for example, over \$3 billion in extra funds had come in during the first seven months of the fiscal year. Brown's strategy of using "conservative" revenue forecasts for budgeting may hold down spending in the year for which the forecast was made. But the appearance of a surprise extra dose of revenue adds to pressure to increase spending beyond what the governor proposed in the next year. Even a prognosis by LAO that under some scenarios the extra revenue might trigger so much extra funding for K-14 under Prop 98 that other programs could be squeezed, did not dampen the legislative pressure.⁴⁷

Of course, there was potential for more expenditures in a variety of programs such as health care. California had been successful in expanding access to health care as part of the federal Affordable Care Act ("Obamacare"). Part of the expansion occurred in the state's Medi-Cal (Medicaid) program. Low provider reimbursement rates under Medi-Cal led to limitations on access to physicians, many of whom would not accept Medi-Cal. It seemed likely, therefore, that those rates would eventually be raised.

In any event, the legislature turned to hearings on a variety of programs after the January budget proposal was released. Not all legislative concerns were directed to the budget, however. There were hearings on such matters as new "sharing economy" technologies such as Airbnb. (There are local budgetary concerns regarding hotel taxes in that case.) The drought was increasingly impinging on public perceptions and in April 2015 Governor Brown announced a "State of Emergency" to deal with water shortages.⁴⁸ However, the immediate budget implication of water cutbacks was unlikely to be large, and the drought had little impact on the passage of the 2015-16 budget.

The drought had uncertain implications for Brown's twin water tunnel plan which he was cutting back in ways upsetting to environmentalists in order to reduce its costs. Brown advised his environmental critics

⁴⁷ California Legislative Analyst's Office, *The 2015-16 Budget: Possible May Revision Scenarios*, April 7, 2015. Available at <http://www.lao.ca.gov/reports/2015/budget/scenarios/may-revision-scenarios-040715.pdf>.

⁴⁸ Brown seemed to go out of his way to make statements pleasing to farm interests, at least initially. Agriculture consumes 80% of supplied surface water. In addition, farm pumping from underground sources as other water supplies were reduced has led to notable ground subsidence.

that “until you put a million hours into it, shut up! Because you don’t know what the hell you’re talking about.” One such critic noted that a million hours involved over 100 years.⁴⁹

Spring and the May Revise

*One thing we know is when governors leave town with big deficits, they’re more scorned than praised.
I think it’s all balance.*

Governor Jerry Brown at his May Revise news conference⁵⁰

As the date for the May Revise to be released approached, the state controller continued to report revenues for the 2014-15 year – by that time including the very-important April income tax month – running well over the \$3 billion estimates made when the budget for that year was passed. The LAO estimated that revenues for the next year (2015-16) would be about \$2.5 billion above what the governor was forecasting. But it cautioned that much of that extra revenue, if it emerged, would be eaten up by K-14 under Prop 98.⁵¹ The major headline events were a proposal for a state-level Earned Income Tax Credit (EITC) to supplement the federal version’s program of income supplementation for the “working poor,”⁵² a plan to deal with underfunding of CalSTRS – the state pension plan covering school teachers, expansion of health insurance coverage to certain undocumented persons,⁵³ and the unveiling of the Committee of Two deal reached with UC president Napolitano.

The key features of the last – beyond what had been part of the January budget proposal – were a multiyear sequence of contributions to the UC pension fund in exchange for a pension cap on new hires, a two-year freeze of in-state tuition (but increases in out-of-state tuition, and an understanding that the governor wouldn’t veto any additional money UC might negotiate with the legislature for added

⁴⁹George Skelton, “A million hours and still not shovel-ready,” *Los Angeles Times*, May 10, 2015. Available at <http://www.latimes.com/local/california/la-me-cap-delta-tunnels-20150511-column.html>. The million hours seems to be somebody’s estimates of all the planning time that went into the proposal. It is referenced in a later statement by the Metropolitan Water District of Southern California:

http://www.mwdh2o.com/PDF_NewsRoom/GM_Statement_DeltaEIR.pdf.

⁵⁰John Myers, “Revised California Budget Reinforces Brown’s Manifesto of Moderation,” *KQED News*, May 15, 2015. Available at <http://www.kqed.org/news/2015/05/15/revised-california-budget-reinforces-jerry-brown-manifesto-of-moderation/>.

⁵¹California Legislative Analyst’s Office, *The 2014-15 Budget: Overview of the May Revision*, May 16, 2015. Available at <http://www.lao.ca.gov/reports/2014/budget/may-revision/overview-may-revision-051614.pdf>.

⁵²Although the EITC offers tax refunds in excess of income tax payments for the working poor starting in 2015, it shows up in the budget as lower tax revenue – estimated by the governor as a revenue cost of \$380 million – rather than as added spending.

⁵³A later California Field Poll suggested that public opinion was leaning towards such an expansion. See <http://www.field.com/fieldpollonline/subscribers/RIs2510.pdf>. However, the governor’s proposal was an expansion to undocumented persons who were given temporary legal status by presidential order.

enrollment.⁵⁴ As it turned out, the legislature did not go along with the multiyear deal and allocated only the first year pension contribution with an explicit statement that it was not obligated beyond that amount. It also provided a small enrollment allocation, less than UC had requested, with conditions attached that – at this writing – were not met for 2015-16 enrollments and may not be met the following year.

Under current budget arrangements, enactment of a budget – so long as it doesn't require tax increases – can be done by a simple majority vote in both houses of the legislature. However, if there is no budget by the June 15 deadline, legislators lose a day's pay for each day the budget fails to be enacted. "Enacted" doesn't mean signed by the governor. The governor could in principle veto the budget. Even if that were to happen, the legislature would have met its constitutional obligation to pass a budget by June 15, and no pay would be lost.

An alternative could be that the legislature would pass a budget and the governor could use his line-item veto to delete elements he didn't want. But the governor doesn't have the power to add things he does want. So there is pressure on the legislature and the governor to come to an understanding and certainly to do so before July 1 when the new budget year begins. In addition, in June 2015, with Democrats in control of both houses and the governor's office, and with a generally expanding revenue "pie" in anyone's forecast, a deal that would produce a budget before July 1 seemed inevitable.

Still, Democrats in the legislature wanted more spending and wanted to assume higher revenues to cover that spending than the governor wanted to accept. Legislators had their constituents to please. The governor needed to maintain his persona as a man who was tight with the dollar. So what emerged was a piece of performance art.

The legislature enacted a budget by the June 15 deadline with more revenue and spending than the governor was willing to accept. Even if the governor wants to exercise a veto, he doesn't have to do it immediately on receipt of the budget from the legislature. So after passing their wish-list budget on time, the legislature then essentially agreed to another scaled-back budget that largely met the governor's terms a day later. The main addition was Medi-Cal coverage for undocumented children.

With the second enactment on June 19, 2015, the scaled-back version superseded the previous version. On June 24, the governor signed the budget making only minor technical line-item vetoes. And all of

⁵⁴Certain graduate professional school tuition increases were to be allowed, although the governor – who holds a law degree from Yale – exempted law students.

these steps were accomplished in time for the July 1 start of the 2015-16 fiscal year. Brown pronounced the new budget as “sound and well thought out.” Assembly Speaker Toni Atkins said that while the new budget wasn’t as good as the wish-list version, it was “the best budget that we have seen in years.”⁵⁵

Unfinished Business

(Legislative leaders) can say, “We tried but gee that governor is tough.” And Jerry Brown comes out looking like the skinflint he loves to look like. It’s a win-win for both.

Political analyst Sherry Bebitch Jeffe⁵⁶

In a sense, budget-making is always unfinished business since the actual path of revenue and spending is an evolving process and since where one budget ends, another begins. However, with the enactment of the 2015-16 budget, the legislature turned to a variety of potential tax matters, as did the direct democracy (initiative) system. Floating around after the budget was passed were proposals for extending the Prop 30 temporary taxes, raising the gasoline tax for road maintenance, some version of a split roll for local property taxes, additional tobacco taxes, an oil extraction tax, and legalization and taxation of marijuana.⁵⁷ There were also issues about reconstituting certain tax elements relating to the health care expansion in the state’s component of the Affordable Care Act. The governor called special sessions to deal with road maintenance funding and the health care tax issue.

At this writing, other matters were also in discussion such as a higher state minimum wage and dealing with the debt incurred to the federal government when California’s unemployment insurance program went into the red as a result of the Great Recession. The fact that the state’s employer cost for workers’ compensation insurance is among the highest for any state is a perennial irritant to the business community and could be addressed at some point.⁵⁸ Public pension issues beyond the governor’s deal with UC and his proposal for CalSTRS remain on the agenda and possibly could be the subject of a ballot

⁵⁵Quotes from David Siders, “Democratic lawmakers largely give in to Jerry Brown on budget,” Capitol Alert blog of *Sacramento Bee*, June 16, 2015. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article24639484.html>.

⁵⁶Quoted in Sharon Bernstein, “California progressives challenge governor’s fiscal caution,” *Reuters*, July 14, 2014. Available at <http://www.reuters.com/article/2015/07/14/us-usa-california-liberals-idUSKCN0PO16X20150714>.

⁵⁷In mid-August 2015, Governor Brown vetoed one tax measure that would have allowed increases in local “transactions” taxes, noting that there were many other proposals for taxes floating around and he was therefore reluctant to approve a particular tax until the tax picture became clearer.

⁵⁸The State of Oregon compiles a tabulation of workers’ compensation costs showing California as the highest cost state in 2014. See http://www.cbs.state.or.us/external/dir/wc_cost/files/report_summary.pdf.

initiative in 2016.⁵⁹ At the same time, the legislature has been taking steps to create a retirement plan for private employees.⁶⁰ And there is the ongoing drought which was triggering an increasingly sharp regulatory response and commanding more and more public attention as the rules trickled down to the individual resident and homeowner. Along with water issues – particularly the governor’s water tunnels – came the threat of a ballot initiative that would require voter approval of major infrastructure projects, including the tunnels.⁶¹

Despite the uncertainty over what the 2015-16 year would bring, shortly after the new fiscal year began revenues on a cash basis came in at well over \$6 billion more than had been forecast a year earlier in the previous (2014-15) budget.⁶² The state controller announced in August 2015 that, for the first time in years, the state would likely have enough internal cash on hand during the 2015-16 years to avoid any external borrowing to cover seasonal needs. The state paid off the last of the 2004 Schwarzenegger Economic Recovery Bonds that he used to deal with the budget crisis inherited from his predecessor.

Nonetheless, a stock market panic in late August 2015 – supposedly sparked by developments in China – served as a reminder that the budget was heavily dependent on financial markets and capital gains taxation. A downturn could trigger a new state budget crisis, despite the sense of plenty that existed after the 2015-16 budget was enacted and despite the rainy day fund. But for the moment, summer 2015 was a quiet time for state fiscal affairs. If these conditions turn out to hold through 2018, Brown will have a very different fiscal legacy at the end of his second iteration as governor than he had left after his first.

⁵⁹At this writing, proponents of such an initiative seem to lack funding for a signature-gathering campaign and an election campaign should their proposal be placed on the ballot.

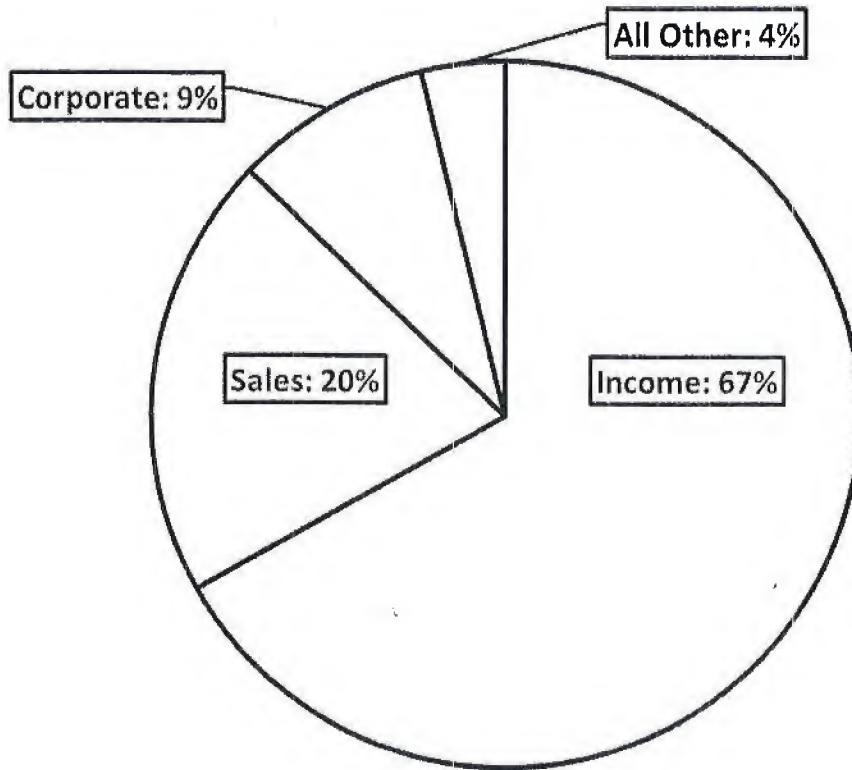
⁶⁰The plan would establish a kind of employee saving plan for workers who didn’t have an alternative plan.

⁶¹At this writing, there were reports that the initiative might have enough signatures to qualify for the 2016 ballot. Business interests – notably the California Chamber of Commerce – announced opposition to the measure.

⁶²See Table 2 of this chapter.

Chart 1

Revenue Sources: 2014-15



Source: Data from California State Controller available at http://www.sco.ca.gov/Files-ARD/CASH/fy1415_July.pdf.

Table 1: General Fund Cash Accounts for Fiscal Years Ending June 30, 2011 to June 30, 2015 (\$ billions)

Fiscal Year Ending June 30	-----Brown-Era Budgets-----				
	2015	2014	2013	2012	2011
Receipts	+\$116.4	+\$104.0	+\$103.4	+\$87.8	+\$95.5
Disbursements	-115.8	-99.6	-96.3	-89.2	-93.8
Surplus/Deficit	+0.6	+4.4	+7.2	-1.4	+1.8
Increase (+) or Decrease (-) in liability*	0.0	-2.4	-7.2	+1.4	-1.8
Reserve**	2.5	+1.9	-	-	-
Reserve+SPEU**	3.0	+3.0	-	-	-
Reserve+SPEU+BSA**	4.6	+3.0	-	-	-
Adjusted Surplus/ Deficit***	+1.6	+5.4	+7.2	-1.4	+1.8

*In the year 2013-14, the \$4.4 billion surplus was used to end the liability of the general fund to other funds and to increase the reserve. In prior years, surpluses reduced the liability and deficits increase the liability, i.e., the reserve closed the fiscal year with a liability still owed.

**Only positive balances are shown. SPEU=Special Fund for Economic Uncertainty. BSA=Budget Stabilization Account ("rainy day" fund). An addition was made to the BSA of \$1.6 billion in 2014-15 which had no balance before. In 2014-15, SPEU's balance dropped from \$1.1 billion to \$0.4 billion. There was no balance in SPEU before 2013-14.

***Consists of the surplus or deficit in the general fund plus the change in the balances in the SPEU and the BSA.

Note: Details need not add to totals due to rounding.

Source: California State Controller, June cash statements. Available at http://www.sco.ca.gov/ard_state_cash.html.

Table 2: General Fund Revenue vs. Estimated Revenue at Budget Enactment, Cash Accounts (\$ billions)

Fiscal Year Ending June 30	-----Brown-Era Budgets-----				
	2015	2014	2013	2012	2011

Total Revenue					
Actual	\$114.2	\$101.6	\$100.1	\$83.5	\$93.2
Estimated	107.4	96.3	96.7	88.4	91.7
Difference	+6.8	+5.2	+3.4	-4.9	+1.5
Income Tax					
Actual	76.3	66.2	67.3	50.7	50.4
Estimated	70.4	60.8	62.8	50.7	46.9
Difference	+5.8	+5.4	+4.5	0.0	+3.5
Sales Tax					
Actual	23.2	22.2	20.1	19.4	27.1
Estimated	23.6	22.7	20.4	19.6	27.1
Difference	-0.4	-0.6	-0.3	-0.2	0.0
Corporate Tax					
Actual	10.3	8.5	7.6	8.1	9.8
Estimated	8.6	8.1	8.4	9.2	10.5
Difference	+1.6	+0.4	-0.8	-1.2	-0.7
Unallocated	-	-	-	-4.0	-

Note: Details need not add to totals due to rounding. Revenue includes only tax, fee, and miscellaneous sources and thus differs from receipts by "non-revenue" transfers from other funds to the general fund. "Unallocated" refers to the assumption of an extra \$4 billion in receipts estimated in 2011-12 for which a specific tax or other source was not specified. See text for details.

Source: California State Controller, June cash statements. Available at http://www.sco.ca.gov/ard_state_cash.html.

Table 3: General Fund Disbursements vs. Estimated Disbursements at Budget Enactment, Cash Accounts (\$ billions)

Fiscal Year Ending June 30	-----Brown-Era Budgets-----				
	2015	2014	2013	2012	2011

Total Disbursements					
Actual	\$115.8	\$99.6	\$96.3	\$89.2	\$93.8
Estimated	116.7	99.4	95.2	89.3	90.5
Difference	-0.9	+0.2	+1.1	-0.1	+3.3

Source: California State Controller, June cash statements. Available at http://www.sco.ca.gov/ard_state_cash.html.

Table 4: Progression of the FY 2015-16 Budget, Accrual Basis (\$ billions)

	LAO Outlook Nov. 2014	Governor's Initial Jan. 2015	Governor's Revision May 2015	Enacted Budget June 2015
Starting reserve including BSA*	+\$2.4	+2.1	+\$4.0	+\$4.0
Revenue & Transfers including addition to BSA*	+113.4	+114.6	+116.9	+116.9
Expenditures	-110.6	-113.3	-115.3	-115.4
Surplus/ Deficit including addition to BSA*	+2.7	+1.3	+1.6	+1.5
Ending reserve including BSA*	+5.2	+3.4	+5.5	+5.5

*BSA = Budget Stabilization Account. The BSA began the fiscal year 2015-16 above with \$1.6 billion contributed in the prior year. Contributions forecast for the BSA for 2015-16 in the columns above, moving left to right, were \$2.0 billion, \$1.2 billion, \$1.9 billion, and \$1.9 billion.

Note: Details need not sum to totals due to rounding. Reserves shown include BSA, "encumbrance" of \$971 million (\$955 million for November 2014 estimates), and SPEU (Special Fund for Economic Uncertainty). The Legislative Analyst's Office removes the encumbrance in its estimates.

Source: California Legislative Analyst's Office data available at <http://www.lao.ca.gov/reports/2014/budget/fiscal-outlook/fiscal-outlook-111914.pdf> (November 2014); <http://www.lao.ca.gov/reports/2015/budget/overview/budget-overview-2015.pdf> (January 2015); <http://www.lao.ca.gov/Recommendations/Details/845> (May 2015); and <http://www.lao.ca.gov/Publications/Report/3279> (June 2015). Reserve data differ from Legislative Analyst's Office's tables as per the note above.

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